



City of Austin

Neighborhood Housing and Community Development

P.O. Box 1088, Austin, TX 78767 -1088

(512) 974-3100 ♦ Fax (512) 974-3112 ♦ www.austintexas.gov/housing

DATE: February 3, 2015

TO: Mayor and Council Members

FROM: Betsy Spencer, Neighborhood Housing and Community Development Office

SUBJECT: Information regarding the 2015 Competitive 9% Low Income Housing Tax Credit Cycle; role of the City of Austin

The purpose of this memorandum is to provide information about the State of Texas 9% Low Income Housing Tax Credit Program as well as the role of the City of Austin as it relates to the program. In addition, this memorandum provides the process coordinated by the Neighborhood Housing and Community Development to initiate items for action by the Austin City Council. Staff has scheduled items for council consideration on the February 12, 2015, Council Agenda.

Items for City Council Action:

Staff will be recommending that City Council approve Resolutions of Support for Austin applications that meet certain established criteria. Please note that by recommending support for the application, the developer may submit his/her application to the Texas Department of Housing and Community Affairs. Staff has coordinated with the Agenda Unit so that each development proposal has three necessary action items to complete the requirement by the Texas Department of Housing and Community Affairs as it relates to the 9% Low Income Housing Tax Credit Program: two action items necessary by the Austin City Council (Resolution of Support and a Resolution of Funding Commitment contingent on a tax credit award by the State) as well as one Action Item by the Austin Housing Finance Corporation (approval of the amount of funds contingent on tax credit awards to meet the State's funding threshold).

These action items are currently reflected on the February 12, 2015, draft Austin City Council Agenda and the February 12, 2015, draft Austin Housing Finance Corporation Agenda. Please note the number of items on the February 12th Agenda are related to the six development entities that have signaled the intent to apply to the State for the 9% tax credit program (See attachment providing details of the six developments and development entities). The applications can be found on the City of Austin's Web site at: <http://www.austintexas.gov/page/fy-14-9%E2%80%9315-housing-applications>

Staff recommends that each proposed application for the Low Income Housing Tax Credit Program receive a Resolution of Support, recognizing that only three or four developments in this region of the state typically will receive an allocation of tax credits.

This program and funding through the State of Texas is one of several resources and tools the City can access to address affordable housing in Austin. The resolution is included in the application that each applicant submits to the Texas Department of Housing and Community Affairs

The Low Income Housing Tax Credit Program developments increase the supply of affordable housing for low income families, persons with disabilities, seniors and veterans. They help ease the shortage of affordable rental housing, attract private investment in affordable housing through tax credits, and create jobs with a positive economic multiplier effect that lasts well beyond completion of construction.

There is also the unique opportunity to leverage resources, thus stretching limited resources even further. In 2014, the City of Austin leveraged an additional \$45 million, with a commitment of only \$5.7 million for Low Income Housing Tax Credit Program developments, a leveraging ratio of nearly \$8 to \$1.

Without a Resolution of Support, the Low Income Housing Tax Credit Program applications that would otherwise be competitive are highly unlikely to score enough points to receive an award of tax credits, resulting in fewer units of affordable housing for the City of Austin and its residents. See Attachment A for a list of developers seeking Resolutions of Support for their proposed developments and applications being prepared for submission to the Texas Department of Housing and Community Affairs. Draft resolutions have been prepared for each and will be provided as attachments to the Request for Council Action.

Low Income Housing Tax Credits Program Information:

Each January, the Texas Department of Housing and Community Affairs (TDHCA) begins its competitive cycle to award Low Income Housing Tax Credits (LIHTC) to proposed multi-family residential developments scoring the highest in each state region. Austin is in Region 7 which includes Travis and the surrounding counties. This tool offers the ability to leverage funds available through the State of Texas and can be useful to address Austin's housing gap of 48,000 units affordable to renters earning less than \$25,000 annually (Housing Market Analysis, 2014: <http://austintexas.gov/page/reports-publications>).

The rules and scoring criteria for Low Income Housing Tax Credits applications are governed by a document known as a Qualified Allocation Plan (QAP). The Qualified Allocation Plan is revised each year by Texas Department of Housing and Community Affairs with public input and approved by the Governor. The statutory deadline for Low Income Housing Tax Credit applications is February 27, 2015. Because of that deadline, the Neighborhood Housing and Community Development Office will be submitting a Request for Council Action (RCA) for the February 12th meeting.

Analogous to federal tax credit programs, such as the Renewable Energy Investment Tax Credit which provides tax credits to incentivize investment in and development of renewable energy facilities, the Low Income Housing Tax Credit Program is a financing mechanism for the development of multi-family rental housing. It requires a specified minimum percentage of units be affordable to low-income households.

The program is governed by the Internal Revenue Code and offers investors (typically banks and other large institutions) the opportunity to purchase tax credits to offset other taxes. When a developer receives an allocation of tax credits and sells them to an investor, the sale generates approximately 70% of the financing needed to fund the proposed development. The funds generated are equity for the development, and not debt. In exchange, the investor is allowed to use the credits to offset other taxes over a 10-year period.

The percentage of affordable units in a tax credit property is specified in a restrictive covenant between the owner and Texas Department of Housing and Community Affairs. The restrictive covenant is commonly known as a Land Use Restriction Agreement or LURA, and typically is in effect for a period of 30 years. The Texas Department of Housing and Community Affairs monitors each property for physical condition and to ensure compliance with the terms of the LURA with respect to tenant incomes and the amount of rent being charged to low-income households.

Since the Low Income Housing Tax Credit Program is competitive, there are scoring criteria worth varying amounts of points. The second largest single scoring criterion can be achieved through Local Government Support, Section 11.9(d)(1)(A) of the 2015 QAP. It states that "Within a municipality, the Application will receive: (i) seventeen (17) points for a resolution from the Governing Body of that municipality expressly setting forth that the municipality supports the Application or Development."

For more information about the Low Income Housing Tax Credits, please find a Frequently Asked Questions document attached to this memorandum as well as available on the Texas Department of Housing and Community Affairs' Web site at: www.tdhca.state.tx.us/multifamily/faqs-htc-basics.htm.

Please contact me if you have any questions.

cc: Marc A. Ott, City Manager
Bert Lumbreras, Assistant City Manager

Attachments:

- Chart: Developers seeking Resolutions of Support, funding commitments
- Low Income Housing Tax Credits Frequently Asked Questions
- Information Graphic: Low Income Housing Tax Credit Program

ATTACHMENT

INFORMATION ON PROPOSED PROJECTS
SEEKING RESOLUTIONS OF SUPPORT

Developer	DMA Development, LLC	Wolfpack Group, LLC	M Group Holdings, Inc.	Foundation Communities	Foundation Communities	Denison Development
Project Name	Azul620	LaMadrid Apartments	Monarch at Lakeline Station	North End Apartments	Cardinal Point Apartments	Merritt Cornerstone Apartments
Address	11411 North RR 620 78726	Southwest corner Ravenscroft Drive & Manchaca Road 78748	9800 Block Lake Creek Parkway 78717	13201 & 13205 Burnet Road 78727	11011 1/2 Four Points Drive 78726	West Howard Lane & McNeil-Merrilltown Road 78727
Census Tract	17.14	17.74	Wmson. Co. 203.11	18.47	17.14	18.46
Council District Number/Member Name	Dist. 6 -- Zimmerman	Dist. 5 -- Kitchen	Dist. 6 -- Zimmerman	Dist. 7 -- Pool	Dist. 6 -- Zimmerman	Dist. 7 -- Pool
Total Proposed Units	120	90	141	144	125	200
31% - 50% MFI Units (Proposed)	48	32	43	72	63	50
0-30% MFI Units (Proposed)	12	8	15	15	13	13
Project Type	New Construction	New Construction	New Construction	New Construction	New Construction	New Construction
Planned Bedroom Types	1,2,3 BR	1,2,3 BR	1,2,3 BR	1,2,3 BR	1,2,3 BR	0,1,2,3 BR
Affordable Rent Ranges (Approx.)	\$349-\$857	\$337-\$431	\$424-\$900	\$565-\$740	\$565-\$730	\$321-\$444
Estimated Total Project Cost	\$20,524,544	\$17,104,282	\$25,214,410	\$22,232,249	\$19,976,008	\$29,811,877
RHDA Amount Requested	\$1,650,000	\$2,500,000	\$2,500,000	\$2,160,000	\$1,875,000	\$2,250,000
Staff Recommendation (Minimum Amount Needed To Get Maximum Points)	\$1,650,000	\$1,260,000	\$1,650,000	\$2,160,000	\$1,875,000	\$2,250,000

\$75,400 (4-person household) = Median Family Income (MFI) for the Austin-Round Rock-San Marcos Metropolitan Statistical Area (MSA) *as of May 1, 2014.*

	1 person	2 persons	3 persons	4 persons	5 persons	6 persons	7 persons	8 persons	Range for 1 wage earner's hourly pay rate, 1 to 8 person household
30% MFI	\$15,850	\$18,100	\$20,350	\$22,680	\$24,450	\$26,250	\$28,050	\$29,850	\$7.62 - \$14.35
50% MFI	\$26,400	\$30,200	\$33,950	\$37,700	\$40,750	\$43,750	\$46,750	\$49,800	\$12.69 - \$23.94

Housing Tax Credit Basics – Frequently Asked Questions

What is the Texas Department of Housing and Community Affairs (TDHCA) Housing Tax Credit (HTC) program?

The HTC program is one of the primary means of directing private capital toward the development and preservation of affordable rental housing for low-income households.

How is the HTC program funded?

The HTC program is funded by the U.S. Treasury Department and is overseen by the Internal Revenue Service. Federal Regulations guiding the program can be found in IRC Code Section 42.

What is the purpose of the HTC program?

The HTC program was designed to:

1. Provide a source of equity financing for the development of affordable housing;
2. Maximize the number of affordable units added to the state's housing supply;
3. Ensure that the state's affordable housing supply is well maintained and operated, serving as a credit to the communities in which affordable housing is constructed and operated; and
4. Prevent losses in the state's supply of affordable housing.

How do Housing Tax Credits Work?

Tax credits are awarded to eligible participants to offset a portion of their federal tax liability in exchange for the production or preservation of affordable rental housing. The value associated with the tax credits allows residences in HTC developments to be leased to qualified households at below market rate rents.

Is there more than one type of Tax Credit?

Yes. Tax Credits are awarded under either the 4% or 9% programs. Four percent (4%) tax credits are awarded to developments that use tax-exempt bonds as a financing component and are awarded on a non-competitive basis throughout the year. Nine percent (9%) tax credits are highly competitive; available credits are determined for each region based on a Regional Allocation Formula (RAF). Applicants seeking 9% credits will compete for credits during the annual application cycle that begins based on the date published in the Qualified Allocation Plan (QAP). Applicants will be scored and ranked on criteria such as financial feasibility, local support, size and quality of proposed units, amenities and services to be provided, and other items intended to encourage the construction of quality affordable housing.

What kind of activities can be completed under the HTC program?

The HTC program funds the development of affordable multifamily rental properties or rehabilitation of existing properties that are willing to maintain affordable rents for an extended period of time.

Who is eligible to apply for housing tax credits?

Private for-profit and nonprofit multifamily housing developers.

Who will occupy the multifamily units built by the HTC program?

After the property is developed by the applicant, the applicant will affirmatively market the property in the surrounding community. Tenants earning up to 60% of the area median family income (AMFI) for the area for their household size and who meet the screening and eligibility restrictions of the property may qualify for a reduced rent unit.

How are HTC units different from Section 8 subsidy?

HTC units offer income qualified tenants a unit at a reduced rental rate that is restricted by annually published rent guidelines. Section 8 determines the rent based on 30% of a tenant's actual income. HTC rental rates may increase or decrease annually based on published limits, but Section 8 rents increase only when the occupying household's income increases or decreases or amended budgets containing proposed rent increases are requested by the Section 8 development owner.

How do developers apply for Tax Credits?

Nine percent (9%) credit applicants may complete a voluntary Pre-Application; 4% and 9% credit applicants must complete the Uniform Multifamily Application and any supplemental forms requested. Visit the TDHCA Web site, click on the "[Apply for Funds](#)" page to review application materials and guidelines.

Where can I find additional information about how an application will be scored?

Scoring and general threshold requirements can be found in the Qualified Allocation Plan (QAP), the Uniform Multifamily Rules, and state law. Visit the "[NOFAs and Rules](#)" page for more detail.

Does the HTC program give preferences to federally subsidized properties or properties owned by nonprofits?

There are set-asides for "at risk" (affordable multifamily federally subsidized or HTC properties that are nearing the end of their contract/affordability terms) and USDA assisted developments; at least 10% of the tax credits allocated every year must be used by qualified nonprofits.

How can I give my input on a Housing Tax Credit development that is being proposed in my area?

Public comment is taken at all [TDHCA board meetings](#) and is accepted during the application review process. Regional public hearings are held to take public comment on 9% HTC applications and applications for 4% credits have hearings associated with their bond funds. For more information, visit the "[Community Information](#)" page on TDHCA's Web site.

Who makes the final decisions on whether a tax credit award will be made?

Final funding decisions on all HTC applications are made by TDHCA's Governing Board. For more information or a list of members, visit the [TDHCA Governing Board](#) page on TDHCA's Web site.

When will final award decisions be made?

Nine percent (9%) HTC applications are considered for approval in July. Four percent (4%) HTC applications are considered for approval throughout the year.

Are HTC developments monitored after they are constructed?

TDHCA monitors and physically inspects all properties that have received tax credits and/or multifamily funds from any TDHCA program. Property owners who do not follow applicable guiding program rules and regulations and property standards may be subject to certain actions designed to encourage compliance. These actions, if not promptly addressed, may lead to other more serious actions such as the assessment of administrative penalties or, in extreme instances, debarment from TDHCA's affordable multifamily programs.

How often and for how long will the Department monitor properties that have received funds from TDHCA?

The Department monitors properties on a routine schedule depending on their funding source. Properties that receive HTCs are generally monitored once every three years; additional inspections may be done as a result of complaints or to rectify serious compliance violations. TDHCA will continue to inspect and monitor properties for program compliance for up to 40 years (or the term of their affordability period).

I have a complaint about an HTC property in my area. Whom should I contact?

Please call the TDHCA Housing Resource Center (HRC) line toll free at 1-800-525-0657. An HRC Representative will connect you with the appropriate contact in the Compliance Division (if the property is in the TDHCA portfolio) or will provide you with a resource number if the property is funded by or under the jurisdiction of another entity.



Tax Benefits (Credits) are allocated from IRS to each State Housing Agency

Each state receives an annual housing tax credit allocation of \$1.75 per capita – in 2015 Texas will receive \$58.6M¹



The Basics of Low Income Housing Tax Credits (LIHTC)



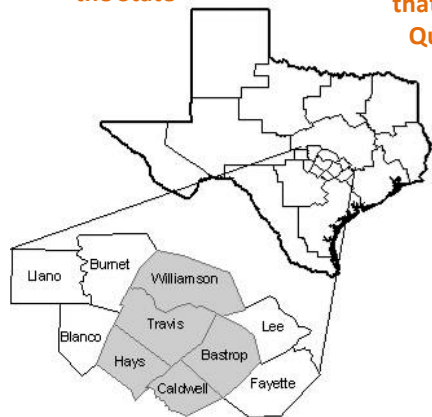
Tax Credits are then allocated through formula to 13 regions throughout the State³

TDHCA allocated LIHTCs totaling \$3.6M to Region 7 in 2013²

Tax Credits awarded to projects that score highest in annual Qualified Allocation Plan (QAP) max award of \$1.5M/yr.³

Money (Equity) to the Developer's Project

Tax Benefits: (Credits) Dollar for Dollar Credit offsets other taxes over 10 years



Austin is in Region 7, ten counties total five urban: Travis, Williamson, Hays, Caldwell, and Bastrop; five rural: Fayette, Lee, Blanco, Burnet, and Llano.³

Loan to the developer

Loan repayment to the lender through rents collected



Lender

- Stable Affordable Housing to those who need it within the community
- Leveraging of Resources
- Future Tax Revenues
- Stable Workforce/Economic Competitiveness
- Increased Quality of Life
- Community Vitality and Diversity

Sources:

- ¹ [Novogradac Affordable Housing Resource Center](#)
- ² [TDHCA 2014 State of Texas Regional Funding Estimates](#)
- ³ [2013 Qualified Allocation Plan and Related Laws and Rules](#)
- ⁴ [Competitive 9% Housing Tax Credits](#)
- ⁵ [Non-Competitive 4% Housing Tax Credits](#)